UGANDA DEBT NETWORK

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Development Financing Options for National Development Plan (NDP) II FY2015/16 – FY2019/20

Targets and Priorities

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Introduction

Uganda developed the National Development Plan (NDP) 2010/11-2014/15 which replaced the Poverty Eradication Action Plan [PEAP] as the overarching progressive policy development framework for medium-term planning, prioritizing government interventions and mobilizing resources. The 5-year NDP is the 1st of six, five year NDPs expected to achieve the National Vision 2040 Framework aimed at developing Uganda from a least-developed to a competitive upper middle income country.

A mid-term review of the NDP was conducted by the National Planning Authority in 2012/2013 to establish progress of its implementation which recorded a few achievements with most of the targets generally unmet. The review was also to inform the formulation process of the NDP II and identify proposals for its effective implementation under the theme *"Strengthening Uganda's Competitiveness for Wealth Creation, Inclusive Growth and Employment"*. The priority areas of the NDP II which need serious focus and adequate resource allocation expected to achieve the theme include; Agriculture, Tourism, Mining/minerals, Infrastructure and Human capital development.

The implementation of the NDP I has faced financing challenges as the Medium Term Expenditure Framework (MTEF) doesn't portray full alignment of resources to the plan. This has also led to wasteful expenditure, failure to manage cash and unwanted supplementary expenditure up to 27%[1]. Resource allocations in the MTEF for FY 2012/13 suggests that in

[1] Office of the Auditor General. 2012. Annual Report of the Auditor General FY 2011/12; Central Governemtn.Vol.2; 2012.

order to achieve the majority of the NDP targets by 2014/15, financial allocations must be broadly in line with those outlined in the NDP[2]. If we are to achieve the NDP II theme, priorities and targets, the followings issues should be considered to close the financing gap.

Options for financing the NDP II

1. Domestic Resource Mobilisation

a) Government to invest in income generation programmes

Domestic revenue mobilisation in Uganda has continued to remain low due to the narrow tax base, limited compliance levels to tax regulations and the existence of the generous tax exemptions and investment incentives as identified in the Mid-Term review of the NDP. Increasing domestic revenue mobilisation efforts is one of the macroeconomic initiatives for restoring stability as a form of monetary policy[3]. However this is a hard option for closing a resource gap and challenging for Government to achieve it in the short to medium term without addressing the issue of low levels of income among citizens and the structure of financial markets[4]. The national resource envelop for FY 2013/14 underperformed by Shs. 1,131.9 billion (8.7%) from the projected amount of Shs. 11,933.0 billion. This reflected a shortfall of a Shs. 483.5 billion in

[2] Office of the Prime Minister. 2012. Government Annual Performance Report FY 2011/12 – Vol.1; November 2012, pg 5.
[3] Ministry of Finance Planning and Economic Development. 2012. The Background to the Budget FY 2012/13; pg.109.
[4] United Nations. 2007. RECLAIMING POLICY SPACE: Domestic Resource Mobilization and Developmental States, pg 6.

domestic revenue mobilization, including a Shs. 475.6 billion deficit in tax revenues[5]. If the financial sector was well developed, this gap would have been closed.

According to the Organization for Economic Cooperation and Development (OECD) as quoted by the National Budget for FY 2014/15, Country Programmable Aid (CPA) to Africa will be restricted to countries with the highest poverty levels and MDG gaps is expected to significantly reduce – by nearly US$ 500 million between 2014 - 2016. This is risky to countries like Uganda that rely heavily on concessional resources for development financing hence the need to strengthen domestic resource mobilisation[6].

Recommendation: *Government should invest in programmes that increase citizens' income earnings to facilitate increased domestic savings. Domestic resource mobilisation will reduce the dependency on the restrictive, volatile external resource flows and vulnerability to external shocks, and increasing ownership of the development process.*

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[5] Ministry of Finance, Planning and Economic Development. 2014. The Background to the Budget FY 2014/15; pg.54.

[6] Ministry of Finance, Planning and Economic Development. 2014. The Background to the Budget FY 2014/15; pg.11.

b) Revise legislation on tax incentives and exemption in Uganda

Uganda has a number of tax exemption and incentive laws and regulations to ensure favorable conditions for investors to start projects and create employment, increase supply and proper use of available resources[7]. Government provides large tax incentives to investors to attract Foreign Direct Investment[8]. It is mostly the large domestic firms and foreign multinationals benefiting from the initiatives while the citizens are left at a loose of the revenue[9]. This creates unfair competition between companies, hurt the domestic revenue base and the tax burden is shifted to fewer citizens. For example, in a report by SEATINI (2012), World Bank (2007) noted that Government made tax interventions to Tri-Star Apparels (U) Limited by investing US$ 11 million, approximately UGX. 25 billion in form of subsidies, loan guarantees, premises and incentives but two years later, the industry was closed leading to loss of taxable income. The report further indicates that Uganda loses an average of 5% of its current revenue to tax incentives and exemptions. Another report by African Development Bank estimated that for the FY 2009/10 Uganda, lost about UGX 690 billion (US$ 272 million) in tax exemptions. Without the exemptions, the tax revenue as a percentage of GDP could reach 16.15%[10].

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[7] Exemptions and Incentives can be traced under the Laws of Uganda including the; i) Investment Code Act, 1991(Cap.92), Income Tax Act, 1997 (CAP. 349), Value Added Tax Act, 1996 (CAP 340), East African Community Customs Management Act, 2005 (EACCMA), Stamps Act (CAP.342), East African Excise Management Act (CAP.28)

[8] Tax Justice Network- African and Action Aid International. 2012. Tax Competition in East Africa: A race to the Bottom?, pg 8.

[9] Some of the companies that have benefited from tax holidays include; Roko Construction, Meera Investments, Alcon International, Cairo International Bank, BMK Industries, Ankole UNGA, former Celtel Uganda and Hima Cement

[10] CSBAG.2013.Issues Paper: An Analysis of Supplementary expenditures in Uganda (FY 2010/11-201/13). Issue.No.2

__Recommendation:__ Revise legislation on tax system on exemptions, incentives and holidays to investors to widen the tax base for revenue collection by URA. This will improve the tax management system to enable the mobilization of local resources and increase in domestic revenues for financing development. Tax incentives especially tax holidays are not a prerequisite for attracting Foreign Direct Investment.

c) Increase revenue generation from untapped sources

Uganda is also characterized by a large informal sector which is not within the tax net. In a national household survey by Uganda Bureau of Statistics in FY 2009/10, Uganda's informal sector employs about 2.2 million people which is approximately 58% of the country's workforce in the non-agriculture private sector, 54% of whom are located in urban setting compared to 61% in the rural setting with a high proportion for females standing at 62%[11]. The survey recorded a total of 1.8million informal businesses with the highest number in the central region (36%), followed by the western region (26%) and the eastern region with 24%. In addition, because of the bureaucratic, costly and time consuming registration procedures, traders are discouraged from obtaining business licenses. In the process of avoiding these administrative barriers and paying taxes, they end up engaging in running battles with authorities and avoiding tax payment. Operating

[11] UBOS. 2010. Uganda National Household Survey 2009/10: Abridged Report, pg 40.

Also refer to: UBOS. 2010. Uganda National Household Survey 2009/10. [Online]. Available at: http://www.ubos.org/UNHS0910/chapter12_the%20informal%20sector.html.[Accessed:13th March 2014].

outside the regulatory framework implies that the informal sector business managers are not taxed hence representing huge revenue losses to Government. This complicates tax administration and is a major source of revenue resource leakage from the taxed economy. Operating outside the regulatory framework by the informal sector implies huge revenue losses to Government. If these funds were collected by URA, it would also reduce on Government borrowing to finance development projects.

Recommendation: *Government through the Uganda Revenue Authority should establish time saving means for registration procedures to assist the integration of the informal sector into the formal sector. This will ensure that the current, informally managed businesses are certified from which revenue can be generated. In order to encourage traders in the informal sector to register their businesses, unregistered businesses would not be allowed to operate. As a result, funds will be remitted directly to the tax collecting institutions by traders and a receipt issued instantly for records and future reference. In addition, the sector has the potential to drive job creation to widen revenue collection by taxing the employed.*

2. Government to invest in productive sectors e.g Agriculture

Agriculture is a major sector in Uganda which contributed about 40 percent of the total goods export earnings in 2012[12]. Its contribution to Gross Domestic Product (GDP) has stagnated over the years at about 22 percent. According to the Mid-

[12] Uganda Breau of Statistics. 2013. Statistical Abstract; pg 38

term review of the NDP, the sector continues to be the major source of employment since it employs more than 66% of the working population and is also a major source of raw materials to the local industries. The NDP II identifies Agriculture as one of its priority sectors for investment in 12 Agricultural Enterprises including coffee, cotton, tea, rice, maize, beans, cassava, fish, milk, beef, citrus and bananas. Unfortunately, there has been little intervention in developing the sector in terms of; i) supporting agro-processing value chain; ii) ensuring food-security; iii) establishing irrigation schemes and water harvesting centres; iv) subsidization of fertilizer costs and maintaining sustainable ecological distribution. The performance of the sector is also greatly challenged by the unpredictable weather patterns yet most farmers depend on using rudimentary farm implements which are time wasting and could delay them in catching up with the season. It is also apparent that rrepeated or intensive agricultural productivity activities on land have a significant soil erosion effects evidenced by declining yields of crops leading to nutrient depletion. Increased agricultural production and productivity in these enterprises will depend on Government's commitment to invest in strategies that will improve the performance of the sector.

Recommendation: *Generally, Government should invest in supporting rapid growth in production to expand productive capacity of the economy. Investment in the manufacturing and agriculture (a major source of raw materials to the local industries) sectors for example, is key to increase gainful employment opportunities which can be taxed to increase national revenue. This will require investment in related infrastructure like roads and production inputs.*

3. Reduction of Government administrative structures to reduce public expenditure

In an effort to take service delivery closer to the people, the Government introduced the decentralization system in the FY 1994/95 to 13 districts. By 1997, all 39 districts received financial transfers to implement the policy under the Ministry of Local Government[13]. The decentralization system saw the division of districts into smaller administrative units creating a total of 112 districts thereby increasing public administration costs[14]. Many of these districts however have been criticized for not providing quality service delivery as had been envisaged. The multiplication of districts implies creation of counties, sub counties, parishes and constituencies which calls for recruitment of civil servants and political representatives to manage the different administrative units which increases the cost of maintenance. In addition, the number of Presidential Advisors (over 100) working within the designated Government structures is overwhelmingly high yet they are fully facilitated using public resources. The resources to maintain these administrative units could be allocated to develop other sectors.

Recommendations: The Government through the Ministry of Local Government should scale down on the number of administrative units to reduce on public expenditure by;

i) *Re-merging some districts to a manageable number (basing on previous experience) to reduce administrative costs and re-channeled resources to other sectors to facilitate public investment. A set performance target should be developed below which a district should be merged to the parent district. This would in turn reduce the number of political positions like Members of Parliament, Local Council Vs, Chief Administrative Officers, Resident District. Officers etc. who are fully facilitated using public resources. Their welfare support and salaries should also be subjected to review. These strategies will save funds for public investment.*

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[13] STEFFENSEN J. et al. 2004. A comprehensive Analysis of Decentralization in Kenya, Tanzania and Uganda; Country Study – Uganda, pgs 8&9.

[14] WIKIPEDIA. Districts of Uganda. [On line]. Available at: http://en.wikipedia.org/wiki/Districts_of_Uganda : [Accessed: 28th. March. 2014].

ii) *The number of ministries and respective ministers should be reduced. In addition, the number of Presidential Advisors to carry out specific, crucial and very essential roles should be limited to the number of those ministries in Government and the five regions in Uganda. They should undergo performance appraisal exercises to inform decision making on future appointments.*

iii) *Partition the country into 5 major regions with one administrative unit in each region to identify general gaps/areas across districts within a region for their action. The governance structure should be separated from the districts to meet development needs (as a form of affirmative action) within the whole region since the division of districts has not yielding desired results.*

iv) *Government should build the capacity of Local Governments to be creative in local revenue generation to boost the inadequate, late Government funds releases.*

4) Government Ministries, Departments and Agencies (MDAs) to practice Budget/financial discipline

National budgeting is expected to facilitate the implementation of national and citizens' priorities identified during the planning process in a given financial year. Ineffective government spending and diversion of public resources are highlighted in the Auditor General's Reports of 2011/12 and 2012/13 as factors that undermine the budgeting process resulting from the failure to stick within the programmed budget by MDAs. High budget indiscipline manifests contrary to the measures put in place in the Budget Act 2001, the Public Finance and Accountability Act 2003 and the Constitution 1995 of Uganda[15].

Government spending is often made through supplementary budgets indicating that the national budget is less implemented as planned. A trend analysis made by CSBAG on supplementary expenditures between 2008/09 - 2012/13 indicates that supplementary budgets not only exceeded 3% of the approved budget but were also made without parliamentary approval as provided for in Section 12 of the Budget Act 2001 as indicated in the table below;

FY	Supplementary Budget ('000)	Approved National Budget (Bns)	% of Suppl. Budget to National Budget
2008/09	254,221,096	5,858.67	4.34
2009/10	332,477,675	7,044.5	4.72
2010/11	1,982,038,519	7,376.54	26.87
2011/12	638,455,051	9,630	6.63
2012/13	552,033,911	10,903	5.06

Source: CSBAG Issues paper on Supplementary Expenditure Mishaps, 2013

[15] CSBAG.2013.Issues Paper: An Analysis of Supplementary expenditures in Uganda (FY 2010/11-201/13). Issue.No.2

The FY 2010/11, the 2nd year of the NDP implementation experienced an outrageous supplementary appropriation of about 27% far above the set limit of 3%. Supplementary budgets divert resources which affects the achievements of agreed targets of the NDP priorities.

On another note, during the FY 2010/11, the Ministry of Works and Transport settled domestic arrears worth a total of UGX10,500,000/= (brought forward from 2009/2010) leaving outstanding arrears of UGX 405,318,218/= . The Ministry did not make any provision for settlement of domestic arrears in the 2010/2011 budget estimates but spent a total UGX.122, 444,208/= to clear outstanding bills which had not been budgeted for[16]. This was a case of diversion of funds and fiscal indiscipline.

Recommendations:

i) *Budget discipline and implementation procedures should strongly be observed by MDAs if the NDP II priorities and targets are to be achieved. Therefore, Accounting Officers should spend budget allocations in accordance with the Treasury Accounting Instructions and the Financial and Accountability rules and regulations that prohibit the diversion of funds.*

ii) *Expenditure discipline measures should be enforced and spending units (PS's/Accounting Officers) need to be punished for committing Government to spend without approval to make budget realistically implementable.*

iii) *Parliament should prevail over the excessive Presidential supplementary budgets which do not fund productive activities. These resources can be channeled to finance public investments.*

[16] Uganda Debt Network. Review and Analysis of the Status of Uganda's Domestic Debt : June 2002/03 – 2011/12, pg 16.

5. Expedition of the Public Private Partnerships (PPP) Bill, 2012

A partnership approach under the PPP is one of the tools for efficiently delivering public services and means of public infrastructure financing[17]. This saves Government resources to enable the delivery of quality public services and achievement of value for money based on operational efficiency. The PPP legal framework for Uganda is currently before Parliament for consideration[18].

In 2008 in Rwanda, to manage deficiencies in the operations and maintenance of rural water supply schemes, the Government involved private sector actors through SNV Netherlands Development organization in the four districts of the Volcanic Region i.e. Rubavu, Nyabihu, Musanze and Burera. The success of the PPP approach has encouraged further extension of the model to other districts to manage surrounding protected springs and water hand pumps[19].

Recommendation: *Although Parliament passed PPP Bill (2012), it is awaiting assent from the President into an Act which will expedite processes of legalizing the PPP Bill (2012). To this end, Government should create an enabling environment to facilitate private sector upgrading, expansion and participation in development initiatives in the country. The existence of the PPP Policy, rules and regulations rules for its implementation will further strengthen the operations of the private sector in terms of efficiency, flexibility and innovativeness in providing services at an optimal cost and for better value for money to the intended beneficiaries.*

[17] GOVERNMENT OF UGANDA, National Development Plan 2010/11 – 2014/15, April 2010, pg 63

[18] The Public Private Partnership Bill (2012) is before the Parliamentary Committee on Finance Planning and Economic Development.

[19] http://www.capacity.org/capacity/opencms/fr/topics/gender-and-social-inclusion/public-private-partnerships-in-water-supply-rwanda.html

6) Transparency and effective utilization of Oil Resource.

The discovery of commercial oil deposits was made in 2006 in Uganda[20] and it is anticipated that Government will earn significant revenues from the inflow of oil funds. If collected and utilized responsibly, generated revenues have the potential to uplift Uganda's economic growth and development. However, Government has been accused of not availing citizens with adequate information on oil earnings, its management and clear roles of institutions in charge of these revenues. It is envisaged that oil revenues will help in financing development projects and facilitate meeting the NDP targets and priority sectors identified.

Recommendations: Considering that Oil is a national, natural resource, the Ministry of Energy should;

i) *Develop a national strategy and plan for storage of oil resources and investment of proceeds for sustainable growth and development. The utilization of oil resources to develop specific sector should be define early enough before actual exploration begins. A decision has to be made now on whether Government should borrow now for development financing in the economy and pay back with oil resources at a later time or accumulate oil resources now and identify specific sectors to invest in at a later date. If the second option is taken on, a specific time line should also be set.*

ii) *Revise the Access to Information Act 2005 to provide for specifically transparency of oil transaction information to the general public. This will enable citizens to monitor oil revenue utilization, management and expenditures without restriction.*

[20] Ministry of Energy and Mineral Development. 2011. Developments in Uganda's Oil and Gas Sector. [On line]. Available at: http://www.petroleum.go.ug/page.php?k=curnews&id=12; [Accessed: 28th. March. 2014].

7. Curbing Corruption – (on a special note as an option)

Despite the establishment of comprehensive legal, policy and institutional frameworks focused on addressing corruption, public resources have found their way into the possession of individuals[21]. In 2011, Uganda was ranked the 39th most corrupt country in the world, down from 57th in 2007 and 54th in 2008[22]. A recent report released by Transparency International in 2013 indicated that Uganda had dropped 10 positions to rank 140th out of 177[23]. The IMF senior resident representative estimated that the World Bank withdrew US$ 280million in FY 2012/2013 as a result of mismanagement of funds of about €4m from Ireland earmarked for poverty projects in the Office of the Prime Minister[24]. These resources would be saved for development and the realization of the Vision 2040.

Uganda has also registered high profile corruption cases with some not yet concluded officially which include[25]; i) The misappropriation of funds by the electoral Commission in 2000; ii) Bank of Uganda Loan Guarantee (2003) and

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[21] Institutional frameworks include; Anti-corruption Court, Office of the Inspectorate of Government, Office of the Auditor General, Parliamentary Public Accounts Committee among others.

[22] UGANDA DEBT NETWORK.2013.Graft Unlimited?: A Dossier on Corruption in Uganda 2002 – 2012, pg 30.

[23]Joan A. 2013. Another year of Corruption. The Independent [Online]. Available at: http://www.independent.co.ug/news/news-analysis/8556-2013-another-year-of-corruption. [Accessed :11th. March. 2014].

Bermann-Harms and Murad. *Putting the Istanbul Principles in Practice: Implementation Toolkit*, pg 6. [Online]. Available at: http://www.cininet.org/wp-content/uploads/2012/03/230111-implementation-toolkit-en-web.pdf [Accessed: 24h. February. 2014].

[24] The Independent. 2013. IMF: Aid Cuts Good Opportunity for Uganda. [Online]. Available at: http://www.independent.co.ug/ugandatalks/2013/06/imf-aid-cuts-good-opportunity-for-uganda/. June 17th 2013. [Accessed : 07th. June 2014].

[25] UGANDA DEBT NETWORK. 2013. Graft Unlimited? A Dossier on Corruption in Uganda: 2002 – 2012, pgs 30.31, 38, 32, 33,44 and 46 respectively.

compensation of Ushs. 142 billion to Hassan Basajjabalaba (2009); iii) Allegations of financial loss of billions in the Office of the Prime Minister (2012); and vi) the Ghost Pension Scheme Scandal (2012) to mention but a few. Corruption diverts public resources to private gain and escalates the cost of providing public services and implementing public programmes thereby undermining the progress of development initiatives and good governance to the detriment of the majority.

Recommendations:

i) Parliament should expedite the passing of the Anti-Corruption Bill which will guide on how to handle corruption cases.

ii) Government through PPDA should adopt a transparent system for public procurement and contraction of service providers/contractors. This can be strengthened by open/public tendering of bids, public interviews and procedures facilitated by Closed Circuit Televisions. The public will also be given an opportunity to identify incompetent contractors who can be investigated and disqualified to ensure taking collective responsibility for deliverables.

iii) Government should effectively enforce the provisions of existing anti-corruption laws to punish the corrupt. It should also respect the independence of the judiciary to enable it carry out its role.

iv) Government should increasingly engage in awareness creation, sensitization for empowerment of communities on their rights and provision of information to citizens on the anti-corruption laws. By introducing structures and systems that increases Participatory Local Democracy local communities will be able to monitor and whistle blow on public servants who engage in corruption acts.

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ese interventions if adopted will enable Government to mobilize resources for development which would otherwise be diverted for private gain.

Conclusion

Good financial management is responsible for not only promoting the prudent utilization of resources and maintaining economic growth but also managing effectively and efficiently all national resources. However, this is also dependent on good governance and its effectiveness is essential for decision making and to ensure prudent resource allocation to facilitate the realization of the NDP II. If the above issues are addressed, then Uganda will go a long way in meeting the targets of the NDP II.

Overview of Uganda Debt Network (UDN)

UDN is a policy advocacy organization working to promote and advocate for poor and marginalized people to participate in influencing poverty-focused policies, demand for their rights and monitor service delivery to ensure prudent, accountable and transparent resource generation and utilization. UDN works in 24 districts and in 80 sub-counties at the local levels with Local Governments and Community Based Organizations. At the national level, the organization engages with various Government Ministries, Departments and Agencies among which are Parliament, Bank of Uganda, Ministry of Finance and Ministry of Local Government on issues of service delivery, public sector accountability, budget processes and policy options.